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U.S. DEPARTMENT OF STATE

DIRECTOR OF INTELLIGENCE AND RESEARCH

*Intelligence
Note* - 743

October 17, 1969

To : The Secretary
Through: S/S
From : INR - George C. Denney, Jr. *h.c.d.l*

Subject: IRAN: Shah's Views of Iranian Defense Needs on the Eve of US Visit

The Shah of Iran reviewed in conversations with the recently-arrived American Ambassador some topics which are of most immediate concern to him and his policy-makers--i.e. Persian Gulf security, Iran's defense needs, and increased oil revenues. While no striking departures emerged from these conversations, the general tenor reflects the Shah's concern with the security of his country and his determination to provide what he regards as an adequate defense against any likely external threat. Most of the Shah's statements were probably aimed at setting the stage for his October 21-22 visit to the US. They may also presage a period in US-Iranian relations in which growing Iranian independence could result in less reliance on US support and less attention to American advice, especially in regional matters.

Shah Concerned About Persian Gulf. Of paramount concern to the Shah are the Persian Gulf and the various forces which may play a role therein following the British withdrawal scheduled for 1971. He is still wary of the USSR and is aware that the US remains the only guarantor against Soviet attack, but he also considers such an attack to be a remote possibility for the foreseeable future. The Shah is convinced that Iran must play the dominant role in the Persian Gulf and he is determined that radical Arab or Soviet influence should

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- 2 -

be prevented, or at least be kept to an innocuous level. He feels that neither Saudi Arabia nor the various principalities can contribute significantly to the control of these subversive forces and that therefore, the entire burden of insuring the region's security will fall on Iran as the strongest and most stable riparian power.

To meet this burden, Iran, in the Shah's opinion, will require a modern and well-equipped military establishment with most of the equipment to be purchased either from the US or elsewhere. Although the Shah's assessment of the Persian Gulf situation and of Iran's role may be overdrawn, there is no denying that he is wedded to it and that Iran has the wherewithal to look to other arms sources if he decides the US is not sufficiently meeting his demands for arms. Keeping such demands within reasonable limits--reasonable in the sense that military procurement does not become a severe strain on Iran's economic development--has required major US efforts over the past few years. If the Shah's stated needs--additional sophisticated aircraft, modern armored equipment, and increased training of Iranian personnel--are indicative of what he is likely to attempt to acquire in the near future, the US may be faced with a serious problem of trying to convince the Shah to keep his requests within economically manageable proportions.

Military Requirements Pose Many Problems. The increased defense burden is likely to create problems also in domains other than US-Iranian official relations. The Shah has already stated publicly that the Iranian people could look forward to a certain amount of "belt-tightening" over the next few years since added expenditures will have to be devoted to the military. The oil

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Authority NND 969000By CB Date 04/09/02
- 3 -

companies will also probably find themselves under increasing pressure to raise offtake and revenue payments beyond projected levels.

Even though sharply rising military expenditures cannot but cause problems for Iran internally by hindering its development plans and externally by perhaps alarming and alienating its weaker Arab neighbors, the Shah appears determined to follow this course. He feels that only a strong deterrent posture can provide the necessary guarantee of Iran's security against radical Arab nationalist incursions into the Gulf region. In addition, the Shah sees Iran as the only logical successor to the British in the Persian Gulf and the only riparian state that can claim sufficient military and economic power to fill this role successfully.



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